

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: May 6, 2009
POSITION: Oppose

BILL NUMBER: SB 217
AUTHOR: L. Yee

BILL SUMMARY: Public Postsecondary Education: Executive Compensation

This bill would prohibit the Trustees of the California State University (CSU) from increasing the monetary compensation or approving the payment of a monetary bonus for any executive officer, as specified, in any fiscal year in which the state General Fund appropriation to CSU is less than or equal to the amount provided in the previous year. The bill would request the same practice of the Regents of the University of California (UC). Monetary compensation would include, but not be limited to, salary and a vehicle and housing allowance. Executive officers of CSU would include the Chancellor, campus presidents, vice chancellors, executive vice chancellors, general counsel, the trustees' secretary, and managerial employees, as defined. Similarly, UC executive officers would include the President, campus chancellors, vice presidents, treasurer and assistant treasurer, general counsel, the regents' secretary, and managerial employees. The restrictions would apply only to executive officers who enter into or renew employment contracts with CSU or UC from January 1, 2010 on.

FISCAL SUMMARY

Both CSU and UC have noted that statutorily prohibiting compensation increases during lean budgetary years would lead to increases in turnover of senior staff, resulting in potential costs in the millions of dollars for the following: recruitment costs, moving and transfer-related costs for the new hire, training and productivity-related costs for the new employee, and vacation payout.

Furthermore, UC indicates that top candidates for positions will likely negotiate harder for higher salaries knowing they will not receive salary increases in lean budgetary times, and that existing disparities between the salaries of new hires and long-term employees will be further exacerbated.

COMMENTS

The Department of Finance (Finance) is opposed to this bill for the following reasons:

- Finance believes that UC and CSU are best qualified to determine the appropriate compensation packages offered to their executive personnel, based on overall funding levels, retention and recruitment concerns, compensation levels offered at similar universities, and other factors. Micromanaging the level of compensation increases that UC and CSU can provide to their executives may lead to undesirable consequences, such as high rates of staff turnover and difficulty in hiring top replacements, and greater compensation costs to fill new vacancies.
- Both UC and CSU have independently taken measures to curtail executive compensation costs in response to the reductions in state funding provided in the past two years. The CSU has implemented a salary freeze for executive positions including the Chancellor, vice chancellors, campus presidents, and vice presidents, through at least June 2010. In addition, the CSU trustees imposed a ten percent furlough on all Management Personnel Plan employees and Executives for 2009-10. According to UC, actions already implemented to reduce costs due to the budget reductions include a salary freeze for Senior Management Group members, senior executive salary cuts, and cancellation or deferrals of certain bonus plans and awards. In addition, the Regents have

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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED)**Form DF-43****AUTHOR****AMENDMENT DATE****BILL NUMBER**

L. Yee

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SB 217

approved a graduated furlough plan for UC employees based on annual compensation, whereby the most highly compensated employees will receive the highest increase in salary reductions.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							
	LA	(Dollars in Thousands)							
	CO	PROP							Fund
	RV	98	FC	2009-2010	FC	2010-2011	FC	2011-2012	Code
6440/UC	SO	No	-----	See Fiscal Summary	-----				0001
6610/CSU	SO	No	-----	See Fiscal Summary	-----				0001